



HF 653 – Iowa Department of Revenue 2015 Tax Policy Bill (LSB1309HV.1)
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Fiscal Note Version – As passed by the House

Description

House File 653:

- Expands the definition of “livestock” as it is used for determining sales/use tax exemptions to include preserve whitetail deer (whitetail deer kept on a hunting preserve). This change is effective on enactment and applies retroactively to July 1, 2005.
- Expands a current sales/use tax exemption for certain all-terrain and off-road utility vehicles (ATVs). This change is effective July 1, 2015.
- Modifies the Disabled Veteran Homestead Tax Credit by allowing an extension of the application filing deadline. This change is effective on enactment and applies retroactively to March 5, 2015.
- Provides a property tax exemption for agricultural land owned by a cemetery association and leased to another person. This change is effective July 1, 2015.
- Provides a property tax exemption for up to 50 acres of property owned by a religious institution or society that receives monetary or in-kind profits from the property. To receive the exemption, all monetary or in-kind profits must be used exclusively for the appropriate objects of the institution or society. This exemption applies first to assessment year 2016 (taxes paid in FY 2018).

The Bill makes Iowa Code section [25B.7](#) (State funding of property tax credits and exemptions) inapplicable to the property tax exemptions provided in the Bill for cemetery associations and religious institutions and societies.

Assumptions

Preserve Whitetail Deer Exemption

- According to information provided by the Iowa Department of Natural Resources, there are currently nine private shooting preserves in the State. These preserves hold an estimated 721 deer and that number is assumed to remain constant.
- Estimated costs associated with breeding, raising, and replacing preserve whitetail deer are based on an analysis of information published by the [American Society of Farm Managers and Rural Appraisers](#). Average expenses associated with maintaining and replacing preserve whitetail deer equaled \$1,990 per deer in 2013 (mid-size operation average).
- The per deer annual expense is assumed to increase 3.0% each year.
- The State sales tax rate is 6.0%.
- The impact of the provision on local option sales tax (LOST) revenues is estimated using the average statewide rate of 0.87% of taxable sales.
- The exemption applies retroactively to purchases made on or after July 1, 2005. The provision prohibits refunds for those taxpayers that paid or will pay the tax on purchases made between that date and June 30, 2015. However, purchasers that did not remit the tax owed during the retroactive period will benefit from the retroactive implementation date. The Department did not provide an estimate of the amount of sales/use tax, penalties, and interest that is owed on purchases made during the 10-year retroactive period.

All-Terrain Vehicle (ATV) Tax Exemption

- The Department of Revenue estimates that the price of ATVs purchased in Iowa during FY 2016 will average \$7,762. It is assumed this average will increase 2.0% percent each year.
- Based on data provided by the Iowa Department of Natural Resources (DNR), there will be 4,177 new registrations for ATVs in 2016 and future years, and farmers account for 9.5% of registrations of all new ATVs. It is assumed that annually, 397 (9.5%) new ATVs will be made newly-exempt from sales/use tax under the provisions of this Bill.
- The State sales tax rate is 6.0%.
- The impact of the provision on local option sales tax (LOST) revenues is estimated using the average statewide rate of 0.87% of taxable sales.
- The estimate does include the sale of used ATVs. However, used ATV sales that are not considered “casual sales” are also subject to sales/use tax and the sales of used ATVs will add an unknown amount to the fiscal impact of the provision.

Disabled Veteran Homestead Credit

- This provision amends [HF 166](#) (Disabled Veteran Homestead Tax Credit Act). The change will allow eligible veterans to apply for the property tax credit through June 30, 2015, and receive the benefit as if they had applied by the normal due date for Homestead Tax Credit applications.
- The number of qualified disabled veteran homeowners that could become eligible for the HF 166 tax credit one year earlier under the provisions of this Bill is estimated to be 788. Since they must apply on or before June 30, 2015, it is estimated for this fiscal note that 75.0% (591) will do so, and the remainder will apply by June 30, 2016, and be eligible for the full tax credit in FY 2018.
- The additional tax credit benefit received will average \$2,557 per beneficiary in FY 2016.

Cemetery Association Property Tax Exemption: This new exemption applies to agricultural land owned by a cemetery association and leased to another person. An average acre of taxed Iowa farmland pays \$23.71 per acre in property tax (FY 2015 average). For the property tax fiscal impact of the exemption to equal \$50,000 or more per year statewide, the impacted acres must exceed 2,100. This is not assumed to be the case. Therefore, this provision is projected to have an annual property tax impact of less than \$50,000 per year.

Religious Institutions and Societies Property Tax Exemption

- From the results of a 2011 survey of Iowa assessors, the Department of Revenue estimates that there are 18,145 acres owned by religious institutions or societies that will become tax exempt under this provision.
- The FY 2015 average property tax rate per acre for Iowa agricultural land is calculated by the Legislative Services Agency to be \$23.71 and for this estimate the FY 2015 average rate is assumed for all years. Also, all impacted land is assumed to be agricultural for the estimate, but the provision does not specify that only agricultural land will be exempt. On a statewide average basis, land that is not agricultural is taxed at a higher average rate.

Fiscal Impact

Division I - Preserve Whitetail Deer Exemption - This provision is projected to reduce revenue by the following annual amounts, beginning in FY 2016:

- State General Fund Revenue - \$100,000
- Local Option Sales Tax - \$14,500

In addition, the provision is retroactive to July 1, 2005. While refunds of taxes paid during that time are not allowed under the provision, purchasers that did not remit the tax owed on purchases made during the 10-year retroactive period will no longer be subject to tax collection,

penalties, and interest. The amount of revenue involved in the retroactive period that might otherwise be collected is not known.

Division I - All-Terrain Vehicle Exemption - This provision is projected to reduce revenue by the following annual amounts, beginning in FY 2016:

- General Fund Revenue - \$192,000
- Local Option Sales Tax - \$28,000

This estimated fiscal impact does not include the sale of used ATVs that will also benefit from the expanded sales/use tax exemption.

Division II - Disabled Veteran Homestead Credit - This provision amends [HF 166](#) (Disabled Veteran Homestead Tax Credit Act). The change will allow eligible veterans to apply for the credit through June 30, 2015, and receive the benefit as if they had applied by the normal due date for Homestead Tax Credit applications. The application deadline extension is projected to increase the FY 2016 State General Fund standing unlimited appropriation for the Homestead Tax Credit by \$1.8 million. This fiscal impact is in addition to the \$560,000 FY 2016 impact cited in the [Fiscal Note for HF 166](#). The change in this Bill does not have an additional fiscal impact beyond FY 2016.

The current balance sheet estimate for the Homestead Tax Credit is \$135.0 million for FY 2016. The LSA estimates that number to be sufficient to cover current law claims, and the estimated additional claims made eligible under both [HF 166](#) and the provisions of this Bill. In addition, absent a noticeable increase in the statewide average property tax rate or the residential rollback, the \$135.0 million appropriation level should be sufficient to fully fund the Homestead and Disabled Veteran Homestead Credits in future fiscal years.

Division III - Cemetery Association Property Tax Exemption - The impact of this provision on local government property tax and on the State General Fund appropriation for school aid is assumed to be negligible.

Division III - Religious Institutions and Societies Property Tax Exemption - The fiscal impact of this provision begins in FY 2018 and is estimated to be:

- Local Government Property Tax Revenue Reduction - \$332,000
- State General Fund School Aid Appropriation Increase - \$98,000

This fiscal impact is based on the estimated acres currently owned by religious institutions and societies. If the number of acres owned by these entities and rented for profit increases in future years, the fiscal impact will also increase.

Sources

Iowa Department of Revenue

Iowa Department of Natural Resources

American Association of Farm Managers and Appraisers (DeVuyst 2013 analysis)

Department of Management property tax files

/s/ Holly M. Lyons

May 10, 2015

The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
